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Influence Of Halal Certification On Innovation And Financial Performance

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ABSTRACT

This research is to empirically examine the influence of halal certification on innovation and financial performance by adopting Resource Based View (RBV) theory. The data used were the financial statements of food and beverage corporates listed at Indonesian Stock Exchange of 2015-2018 period. The analysis method employed was multiple linear regression using SPSS. The results show that halal certification significantly and positively affects financial performance. Similarly, innovation also results in positive and significant effect on financial performance, and halal certification positively and significantly affects innovation and financial performance. A number of implications are catered by this research, such as theoretical contribution toward the existing literature related to food corporations in Indonesia. This is expected to be a reference for the study on halal food corporation in Indonesia, as well as to provide knowledge of the improvement of financial performance and innovation through halal certification for food corporate management.

KEYWORDS: Competitiveness; Financial Performance; Halal Certification; Innovation; RBV.

INTRODUCTION

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In the past few years, halal certification has attracted the attentions of practitioners and academics. The issues on integrity, ethics, dubious standard, lack of uniformity, and manipulation imply that halal certification is still far from its expected condition and function (Syazwan, Talib, Bakar, Hamid, & Chin, 2016). On the other hand, there is a rising trend in global market to get halal products which can also attract the consumers. Hence, Indonesian Chamber of Commerce and Industry and Indonesian Ulema Council prepare the regulations related to the development of halal industries in Indonesia (Daily, 2016).

Halal certification is a new marketing strategy which can be used to strive in the competitive environment (Rajagopal, Ramanan, Visvanatha, & Satapathy, 2011). The customers' awareness of halal certified products increases swiftly which is also accompanied with the increase in the customers' volatile and continuous demands. Consequently, the interest in halal products attracts not only muslim, but also non-muslim consumers (Ab Talib, Al Chin, & Fischer, 2017). Wilson and Liu (2010) find that the concept of halal certification in Indonesia has a potential to entice muslim society. Halal food certification, in the forms of either license, logo, or stamp, is an identification to provide the information to the users that the food product has complied with Islamic standard, in terms of ingredients, production process, and distribution. Yunos, Mamood, and Mansor (2017) suggest that halal produces trading has a potential to benefit trillions rupiahs since halal certification can become a magnet to attract the consumers.

Rajagopal *et al.*, (2011) argue that those halal product corporates must also be innovative. Innovation is defined as a complex phenomenon involving production, diffusion, and knowledge of new goods or services, as well as their modification. Innovation can also be called as production development or new processing technique. In a wider context, innovation can be comprehended as a complex activity involving the current knowledge and future knowledge which will be applied for commercial purpose (Galende, 2006). The research conducted by Marques and Ferreira (2009) demonstrates the success of innovation in stabilizing the competitiveness of a company. Other studies also show that there is a positive influence of innovation on financial performance.

Sujati and Januarti (2021) state that financial performance can be used to measure company's market valuation. Financial performance can also show economic growth (Pradiatmi & Wibowo, 2015). The measurements of financial performance indicate that entity strategy including its application and implementation can contribute to the bottom-line improvement. An entity's financial performance is improved through two basic approaches, namely revenue growth and productivity. Besides, a company can generate profitable revenue by intensifying its customer relations. Meanwhile, productivity can be improved by reducing direct and indirect expenses or by utilizing financial and physical assets efficiently through the reduction of working and fixed capitals needed to support the given business level. The relation between strategies and financial perspective arises when an entity creates an equilibrium between growth and productivity. Financial performance variable includes three indicators, namely income growth, cost reduction or cost saving, and asset use increase as well as customer value increase. The research is in concordance with the research conducted by Yunos *et al.* (2017) which reveals that halal certification contributes to and increases the awareness of the Department of Islamic Development Malaysia (JAKIM) and Malaysian companies to enhance the business prosperity. Similarly, this research is also in agreement with the previous study performed by Verbeke, Wim, Rutsaert, Bonne, and Vermeir (2013) which stated that the Muslim consumers were willing to pay higher price for

the food with halal label. From the studies abovementioned, it can be inferred that there is a theoretical relation that halal-labelled products entice the consumers to purchase, and it can indirectly improve the company performance in the form of income.

A number of existing studies on the effects of halal certification have proven that the customers respond positively to the products with halal label (Salindal, 2018). The positive response can be entailed with the product innovations in order to increase the financial performance of the company. The research of Yunos *et al.* (2017); Nordin, Husain, Yulia, Basar, and Salleh (2017); Ab Talib *et al.* (2017) only focused on the relation between halal certification and financial performance. There is limited empirical evidence on the influence of halal certification on innovation and financial performance, especially innovation as moderating variable. Prior studies examine the effect of halal certification to innovative and market performance (Salindal, 2018), the impact of halal certification to financial performance (Yunos *et al.* 2017). Besides, the existing studies on halal certification mostly used survey by distributing the questionnaires to customers, while the corresponding research using secondary data is still limited in number. In addition, this research also applies Resource-Based View theory that focuses more on company while the previous researchers used Reasoned Action or Planned Behaviour theories that focus on consumers. Companies also need to pay attention and provide halal certified-products.

Resource-Based View (RBV) theory is a theory which assumes that the internal resources of a company can be used and developed to benefit more advantages from the market. The internal resources in this case include asset, capability, competence, organizational process, information, and knowledge (Paulus, 2016). A company which has an accurate strategy will win over a long-term tight competition. An accurate strategy refers to the strategy which is taken by synchronizing the resources the company has with the market by considering the surrounding conditions. A company applying RBV concept will not only be sustainably competitive, but also can sustainably win the competitive advantages and possibly control the material assets both tangible and intangible (Rahadian, 2017).

This study is to examine and analyze the influence of halal certification on innovation and financial performance. Thus, this research is expected to give both theoretical contribution to the development of financial accounting study and practical contribution in which the results of this research can be a reference and consideration for a company to improve its performance in order to excel in the global competition.

Hypothesis Formulation

RBV theory explains that a company's development strategy can be implemented by utilizing old resources and developing new resources to improve the company performance to realize the sustainable competitive excellence (Barney (1991). With the competitive and saturated conditions of the market, a company tends to be more aggressive in producing and marketing its products. This strategy is also implemented by food companies to attract the market by offering their unique products. To do that, they will keep innovating their products, one of which is by publishing halal certification to signal better product offering to the consumers.

Halal food certification in the forms of license, logo, or seal is a certified identification for a company whose food products derive from, are processed and distributed in compliance with Islamic standard values (Riaz & Chaudry, 2004). Halal certification becomes a new marketing strategy which withdraws the attention of the consumers (Yunos *et al.*, 2017). In addition, this strategy enables a company to compete in a competitive business environment and has a potential to gain trillions of rupiahs. Chan (2011) argues that most of the halal corporations which are innovative have improved their product qualities and gained

competitive advantage in the market. Rajagopal *et al.* (2011) indicates that the halal corporations must be innovative in order to be able to compete in the market. Therefore, a company considers that halal certification may lead to the innovativeness of the company. The first hypothesis is then formulated as follows.

H1: *Halal certification positively influences product innovation.*

RBV theoretical concept stated by Barney (1991) is a method to analyze a company's development strategy viewed from its existing resources. There are three categories of resources of a company, namely physical resources, human resources, and organizational resources. If a company can utilize the resources, the company can endure the global competition. If the company can properly execute the resources, it can create a scarce, valuable, and unsubstitutable asset. Consequently, the company will always innovate the products to appeal the consumers, to be an excellent company, and to gain the expected business advantages, especially related to the company financial performance.

Innovation is a complex phenomenon which includes production and modification of a new product or service. Additionally, innovation is also related to the development of a new product in terms of production or processing technique. Hence, innovation to some extent can be defined as currently applied or to be developed knowledge for commercial purposes (Galende, 2006). Bigliardi (2013) identifies innovation as the main drive for a company to actualize prosperity and growth, as well as to maintain high profitability. The research performed by Marques and Ferreira (2009) also demonstrates that the success of innovation can secure the competitive position of a company. New product innovation can fulfill the need for and availability of the new product or the improvement of the old products. This can bring about an implication for the management to reach the excellent performance. Therefore, an innovative company will be able to enhance the company performance. Based on the construct, the second hypothesis is formulated as follows.

H2: *Innovation positively influences financial performance.*

RBV is a theory to assess business performance based on resources. Barney (1991) explains that if any resources provided for a company are used effectively and efficiently, they can produce a profitable business. Referring to Barney's (1991) perspective on RBV, certification is basically a resource which can be utilized by a company to seek profit. According to Dube, Haijuan, and Lijun (2016), halal certification system can be considered as a resource-based perspective on company internationalization.

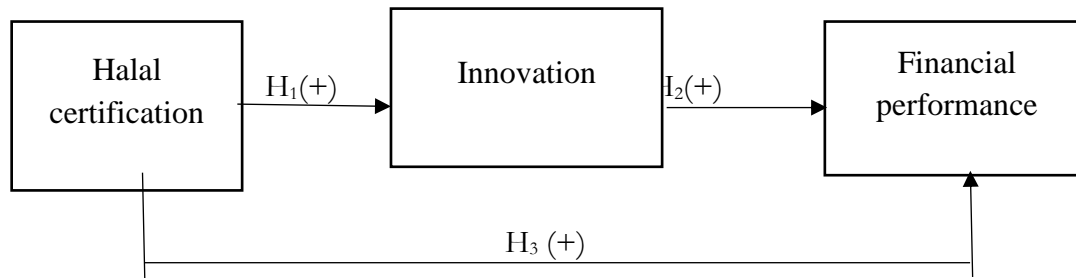
The improvement on the product quality leads halal certified companies to experience increase in demand for halal products. This demands come from not only muslim society, but also non-muslim society since the consumers' perceptions are not merely based on the religious values but also on the conviction that the products are properly derived, produced, and distributed (Ab Talib *et al.*, 2017).

Tieman, and Ghazali (2013) argue that halal certification affects purchasing process. In line with the study carried out by Verbeke, Wim, Rutsaert, Bonne, and Vermeir (2013); Yunos *et al.* (2017) mention that the fact on a muslim is willing to pay higher price for a halal product opens a potential opportunity for export. Also, the awareness of halal products becomes the main target for the managers to improve the company financial performance (Nordin, Husain, Yulia, Basar, & Salleh, 2017). Thus, based on the assumptions the third hypothesis is formulated as follows.

H3: *Halal certification positively influences financial performance.*

The research model shown in Figure 1 is constructed to easily comprehend the influences of halal certification on financial performance with innovation as intervening variable.

Figure 1.
Research
model



METHOD

This study employed quantitative model using secondary data analysis approach. Secondary data analysis refers to an analysis which treats secondary data as the main data source. The secondary data are originated from the second party which has the related data (Abdillah & Hartono, 2015).

The population of this study was the food and beverage companies listed at Indonesian Stock Exchange. The sampling technique was purposive sampling based on the predetermined criteria.

The data used in this research were secondary data in the form of financial statements of the selected companies as mentioned previously. Food and beverage companies listed at Indonesian Stock Exchange that were considered as the main respondent of the study. There are seventeen food and beverage companies. The analysis conducted in this research included descriptive statistical and inferential statistical analyses used SPSS 2019.

Operational Definitions of Variables

The independent variable of this research is halal certification, and the dependent variable is company financial performance. Innovation acts as an intervening variable. Halal certification is defined as a new marketing strategy in a competitive environment (Rajagopal *et al.*, 2011). Halal certification in this research is functioned as dummy variable where the value is 1 if a company has halal certification, otherwise it is 0. This requirement was observed from the data in the annual report whether or not the data showed that the entity held halal certification, the halal label was still valid for the products, or it applied other aspects as regulated by Indonesian Ulema Council.

The second variable is innovation as an intervening variable. Innovation is a complex phenomenon involving production, diffusion, and knowledge of a new product or service and its modification (Galende, 2006). Ngo, Nguyen, Doan, and Nguyen (2020) in their research treated innovation as a dummy input variable defined as a research and development project running during the survey period. Meanwhile, the company innovation output was measured as a dummy variable in the form of the completed research and development project during the research period. In other words, dummy variable was used for the companies in collaboration and cooperation for research and development project. Generally, the external resources determine the capability of a better company to innovate and get involved in an innovative process (Ngo *et al.*, 2020). This study used three dummy variables as the proxies of innovation variable, those are product development plan, cost spending for research and development, business prospect and product innovation. In this

research, innovation as dummy variable was valued 1 if the company secured halal certification supported by the evidence such as pictures of product development, cost spending on research and development, as well as business prospect and product innovation. The value 0.5 was given when the company implemented product innovation in relation to halal certification in the form of cost spending on research and development as well as business prospect and product innovation without evidence, while 0 (zero) was given if no halal product innovation was observed.

The last variable is financial performance as dependent variable. The measurements of financial performance indicate the entity strategy, including the application and implementation, to contribute to the bottom-line improvement. The research of Yunos *et al.* (2017) uses three proxies of financial performance, namely Return on Equity (ROE), Sales, and Ratio of Cash Flow to Sales. Mohammadzadeh *et al.* (2013) states that ROE reflects the company profitability by measuring the shareholders' equity return. This variable is measured by dividing the average net income by shareholders' equity. It is usually reported in the financial statements, especially in the part of income statement and balance sheet. With regard to the previous studies, this research uses ROE as the proxy for financial performance because referring to Chen *et al.* (2005), ROE is the most important financial consideration and indicator for investors.

The formula of Return on Equity:

$$\text{Return on Equity (ROE)} = \frac{\text{Net income after tax}}{\text{Equity}}$$

Data Analysis Technique

The analysis conducted in this research included descriptive statistical and inferential statistical analyses. Abdillah and Hartono (2015) mention that descriptive statistics is an area of statistics which describes the data collected without any purpose to make generalization. Meanwhile, inferential statistics is a part of quantitative analysis which involves classical assumption test, multiple linear regression test, hypothesis test (T-test), coefficient of determination (R^2), F-test, and mediation hypothesis test.

With the variables aforementioned, the regression equation is as follows.

$$Y_1 = a + b_1X_1 + b_2X_2 + e$$

$$Y_2 = a + b_3X_1 + b_4X_2 + b_5Y_1 + e$$

Where:

- a = Contant
- b_1, b_2, b_n = Regression coefficients of each halal certification variable
- X_1, X_2 = Variables of halal certification
- Y_1 = Innovation
- Y_2 = Financial performance

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

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Descriptive statistics presents a general description of the data which can be estimated from the minimum value, maximum value, mean, and deviation standard of each research variable.

Based on the sampling criteria, there were seventeen corporations collected which resulted in the total 85 observations. Table 1 shows the descriptions of all the research variables.

Table 1.
Descriptive
Statistics

	N	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
Halal certification	85	0	1	.940	.026	.237
Innovation	85	.0	1.0	.412	.0326	.3006
Financial performance	85	-19.00	142.90	26.3847	4.0536	37.3729
Valid N (listwise)	85					

From the total number of 85 observations, Table 1 shows that the highest maximum statistic is financial performance, 142.90, and the lowest is halal certification, 1. Meanwhile, the highest value of minimum statistic is 0 for halal certification, and the lowest is -19.00 for financial performance. The highest mean is 26.3847, while the lowest is 0.412. The standard deviation reaches 37.3729 as the highest value, and the lowest value is 0.237.

Classical Assumption Test

There are three tests on classical assumption test, including data normality test, multicollinearity test, and heterocedasticity. The result of the classical assumption test will be explained below:

Data Normality Test

The testing on data normality is to estimate whether or not in the regression model the confounding variables or residuals have normal distribution. The normality test used in this study was non-parametric Kolmogorof-Smirnof test. The basis for decision making was if the probability > 0.05 , the data were normally distributed. The result showed that the significance value was > 0.758 , so the residual data were normally distributed.

Multicollinearity Test

This test is to find the correlations among the independent variables in a regression model. A good regression model must show no correlations among independent variables. Multicollinierity can be identified from (1) tolerance value and (2) Variance Inflation Factor (VIF). General cut-off value to show multicollinearity is tolerance value > 0.1 or VIF value > 10 (Ghazali, 2016). The result of multicollinearity test in this study showed that no multicollinearity existed among the independent variables of the regression model since the tolerance value was < 0.10 and VIF value < 10 , namely 0.963 and 1.038 respectively.

Heterocedasticity Test

One of the tests to detect heterocedasticity is Glejser test. This test regresses residual absolute value on independent variable. The probability value is considered significant if the significance value is more than 5% (Ghazali, 2016). This test is to find the residual variance

differences from one observation to another observation. If the variants of the residuals do not change from one observation to another observation, there is a homocedasticity, and the opposite is called heterocedasticity.

Using Glejser test, the significance values of the independent variables by applying unstandardized residuals were > 0.05. It can be concluded that there is no heterocedasticity in the regression model.

Multiple Regression Analysis

Coefficient of Determination (R²) and Simultaneous Significance Testing (F)

There are two model equations in this study. The first is to estimate the influence of halal certification on innovation, and the second is to estimate the influence of halal certification and innovation on company financial performance.

Coefficient of Determination (R²) of Model 1

To calculate the influence of halal certification (X) on innovation (Y₁), multiple correlation coefficient was used as presented in Table 2.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.698 ^a	.487	.481	.230

Table 2.
Model Summary of R-Squared for Innovation

a. Predictors: (Constant), Halal certification

Table 2 shows that the coefficient of determination is 0.487 which means that the model can explain the influence of halal certification on innovation as much as 48.7%. The rest 51.3% can be explained by other variables.

Coefficient of Determination (R²) of Model 2

Table 3 illustrates the multiple correlation coefficient between halal certification (X) together with innovation (Y₁) and financial performance (Y₂).

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	.317 ^a	.100	.078	35.877

Table 3.
Model Summary of R-Squared for Financial Performance

a. Predictors: (Constant), Innovation, Halal certification

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From Table 3, it can be seen that the multiple correlation coefficient is 0.100. Thus, it can be interpreted that 10% of financial performance is influenced by halal certification and innovation, and the remainder of 90% can be explained by other variables.

Simultaneous Significance Testing (F-test) on Model 1

To test the hypothesis of Model 1, F-test was conducted. The statistical formulation for the hypothesis is as follows.

$H_0: b_1 = b_2 = \dots b_k = 0$ (halal certification and innovation do not simultaneously influence financial performance)

H_1 : H_0 is false.

Sig : 0.05

Table 4.
ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	4.160	1	4.160	78.719	.000 ^a
1	Residual	4.387	83	.053		
	Total	8.547	84			

Constant = -3.068

a. Predictors: (Constant), Halal certification

b. Dependent Variabel: Innovation

Table 4 shows that the significance value is 0.000 which is < 0.05 ($\alpha = 5\%$), so H_0 is rejected. It means that halal certification significantly affects innovation.

Simultaneous Significance Testing (F-test) on Model 2

F-test was also employed to examine whether the independent variables simultaneously influence the dependent variable. The statistical hypothesis is as follows.

$H_0: b_1 = b_2 = \dots b_k = 0$ (halal certification and innovation do not simultaneously influence financial performance)

H_1 : H_0 is false.

Sig : 0.05

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	11778.640	2	5889.320	4.575	.013 ^a
2	Residual	105547.219	82	1287.161		
	Total	117325.859	84			

Table 5.
ANOVA^b

Constant = -15.762

a. Predictors: (Constant), Innovation, Halal certification

b. Dependent Variable: Financial performance

The results show that the significance value is 0.013 which is < 0.05 ($\alpha = 5\%$), hence, H_0 is rejected. Halal certification and innovation simultaneously and significantly influence financial performance.

Hypothesis Testing

Multiple linear regression analysis results in regression coefficient and p-value. The results of the multiple linear regression analysis are shown in Table 6.

Hypothesis	Correlation	Beta	t-statistic	Sig.	Result
H1	SH → I	0.687	8.872	0.000	Accepted
H2	I → KK	27.666	2.085	0.040	Accepted
H3	SH → KK	31.121	2.552	0.013	Accepted

Table 6.
Summary of Hypothesis Testing Results

SH = Halal certification (X); I= Innovation (Y1) and KK= Financial performance (Y2)

and innovation is as followed. Based on the results in Table 6, the equation of the correlation between halal certification

$$Y_1 = -3.068 + 0.687X$$

The correlation coefficient of halal certification is 0.687 with t-statistic 8.872 and significance value 0.000. The significance level used for this model was 5% or 0.05. Since the significance value is 0.000 < 5%, yaitu 0.000, halal certification can be assumed to have positive and significant influence on innovation. Consequently, the first hypothesis is accepted.

Another equation which can be constructed from the data in Table 6 is as follows.

$$Y_2 = -15.762 + 31.121X + 27.666Y_1$$

The equation describes that the correlation coefficients for both halal certification and innovation are 31.121 and 27.666 respectively. It can be inferred that halal certification has more contribution to financial performance than innovation does. This study used dummy variables for halal certification and innovation where the company with halal certification

and good innovation was valued 1 (one). The company which did not show both halal certification and innovation was valued 0 (zero). The company which showed underqualified innovation was valued 0.5.

From the criteria, halal certificate contributes as much as 15.359 to the financial performance of the company with halal certificate. In contrast, its contribution is -15.762 to the company without halal certification. Innovation, on the other side, contributes as much as 11.904 to the financial performance of the company with good innovation, but for that with underqualified innovation and that without innovation, the contributions are -1.929 and -15.762 respectively.

Table 6 shows that innovation has correlation coefficient as much as 27.666 with t-statistic 2.085 and significance value 0.040 which is < 0.05 . Thus, it can be concluded that innovation influences financial performance which signifies that the second hypothesis is accepted.

Moreover, halal certification has correlation coefficient as much as 31.121 with t-statistic 2.552 and significance value 0.013 which is < 0.05 . Hence, halal certification influences financial performance which means that the third hypothesis is accepted.

Mediation Testing

The significance of the mediation effect was tested using the procedure developed by Sobel which is called Sobel test (Ghazali, 2016). To calculate, the data processed by SPSS were required as follows.

- 1). $X_1 \rightarrow Y_1$ (a) = 0.68
- 2). $Y_1 \rightarrow Y_2$ (b) = 27.666
- 3). SE_a = 0.077
- 4). SE_b = 13.272

Mediation Effect Testing 1

$$z = \frac{ab}{\sqrt{(b^2 SEa^2) + (a^2 SEb^2)}}$$

$$z = \frac{0.68 \times 27.666}{\sqrt{(27.666^2 \times 0.077^2) + (0.68^2 \times 13.272^2)}}$$

$$z = 2.029$$

where:

- a = regression coefficient of independent variable to mediating variable
- b = regression coefficient of mediating variable to dependent variable

- SE_a = standard error of estimation of independent variable influence on mediating variable
- SE_b = standard error of estimation of mediating variable influence on dependent variable

The calculation using Sobel test generated z-value as much as 2.029. Because the value of z is > 1.96 with significance level 5%, it can be concluded that innovation is able to mediate the influence of halal certification on financial performance.

Influence of Halal Certification on Innovation

Table 6 demonstrates that the correlation coefficient of halal certification toward innovation is 0.687 with the significance value 0.000 which is < 5%. It indicates that the first hypothesis is accepted which means that halal certification positively and significantly influences innovation. Halal certification is one of the marketing strategies which is usually implemented to strive in the competitive market (Rajagopal *et al.*, 2011). The certification includes license, logo, and seal as the identification to inform the consumers that the food products are derived from, produced, and distributed complying with the Islamic standard (Riaz & Chaudry, 2004). Additionally, Bigliardi (2013) identifies that innovation has a role to boost the prosperity and growth as well as to maintain the high profitability of the company. The theory is also supported by the research conducted by Rajagopal *et al.* (2011), Chan (2011), and Salindal (2019) which reveals that most of the innovative halal companies have improved their products qualities and gained competitive excellence in the market. Besides, Salindal (2019) also adds that halal certification and innovation include important components such as quality and security of halal food which in turn can influence the company image and reputation. This is in agreement with the study of Noorliza (2021) stating that the resources arising from halal logistic products in halal industrial era will move fast and be able to lever the company competitiveness. Therefore, halal product providers can develop their resources in the forms of physical, technology, knowledge, relations, and organization to boost the success of their halal products which should be further innovated in the dynamic halal environment. When a company holds halal certification, it will indirectly affect the company's image and reputation, especially if the company resides in a country with the majority muslim population. Thus, it can be a beneficial opportunity because it can help build the trust of the muslim population, and at the same time the company can turn them into the loyal customers who always use the company's halal products. Based on the research, to keep the customers' loyalty, innovation is the key because by enhancing the innovation, the company is able to compete with other contenders in the market. In addition, the government as one of the factors in the halal product and service provision chain can contribute by making the regulations to support the halal product and service producers to market their products and services. Hence, the investors, government, and producers can collaborate to improve the innovation of halal certified products in order that the companies can compete with other companies in the market.

Influence of Innovation on Financial Performance

Partial testing results in Table 6 shows that innovation has correlation coefficient amounting 27.666 with the significance value 0.040 which is < 5%. It can be concluded that the second hypothesis is accepted that innovation has a positive and significant effect on financial performance.

The company competitiveness can be supported by effective performance measurements. The company must identify the aspects which can influence the financial performance; hence, the company can be managed more effectively (Bigliardi, 2013). The theory is supported by the research conducted by Sandvick and Sandvick (2003), Marques and Ferreira (2009), and Bigliardi (2013) which argues that the innovative new products can fulfill the needs and at the same time positively affect the availability of possible adoption of the new products. The research performed by Karabulut (2015) also endorses the previous research by stating that company innovation can direct the management to improve the company financial performance. In addition, Roongchirarote and Zhao (2017) also affirm that organization, marketing, and product innovation affect the company financial performance; moreover, innovation process can be collaborated with other forms of innovations to reach the company goals. The introduction of new products or services as well as the further development of those products and services can be seen as a product innovation viewed from the its characteristics and functions. In a competitive market, product innovation is used to respond the shorter product life cycle. Cheah, Ho, and Li (2021) mention that innovation and production management can adopt the strategies to improve the financial performance through product innovation and innovation process. This study implies that innovation can indirectly improve the company financial performance through ROE which reflects the company profitability by measuring the shareholders' equity return. Moreover, ROE is also the most important factor in financial ratio and profitability measurements. To reach the excellent business performance, the managers must be innovative. The managers have the responsibility to make innovations for halal products because the improvement of the product innovation will enable the shareholders to reach the targeted profit. In addition to the fulfillment of the internal needs, halal industry must also be able to target to and attract the external parties, such as tourists and international diplomats to increase national foreign exchange. As a country with the largest muslim population in the world, Indonesia must be a center for global halal industry (Rafiqah, 2019). Therefore, the innovativeness of halal certified companies is expected to appeal overseas consumers and investors which will further increase the national economy through foreign exchange.

Influence of Halal Certification on Financial Performance

Partial testing in Table 6 shows that halal certification has correlation coefficient as much as 31.121 with significance value 0.013 which is $< 5\%$. This demonstrates that the third hypothesis is accepted that halal certification positively and significantly affects financial performance.

Halal certification is a resource for a company to go international and a ticket to enter global market. Since halal industries have already shown their impacts on the national economy, it is important to measure the implication of halal certification among the producers. According to Wang *et al.*, (2015) a company with strong financial performance might have large investment in the accountable social programs. However, the question remains on how the company measures its business performance. There are two important sources of financial information which are useful to evaluate the company financial performance, namely stock market return and stages of accounting cycle (McGuire, Sundgren, and Schneeweis, 1988). The theory is seconded by the studies carried out by Tieman, Marco, and Ghazali (2012), Verbeke *et al.*, (2013), Nizam, Talib, and Razak (2013), and (Nordin *et al.*, 2017). Nordin *et al.* (2017) adopts the approach focusing on ISO 9000 certification to measure the company financial performance and halal certification to measure the product quality. The increasing competition among the companies alters the customers' demand. This increase in the awareness of the customers then becomes the main target for the managers.

The best quality for the customers which can be provided by the company is, one of which, halal certified products. Gaining customers' trust and increasing the sales of halal products show the success of the company to generate more profits and prove good corporate performance. The increase in the product demand can directly promote the company financial performance, one of which is by increasing ROE. This is actually in line with the increasing interest of Indonesian customers in halal products. The implication of this research is halal certification can increase the profit for the investors who want to cooperate with the halal industries since halal is the value and need of the muslims who are the majority in this country with the largest muslim population in the world. Investors also assume that halal market is important and has influence in the global trade and halal industry development (Lubis, 2019). With the increases in profits and investors' trust, the producers (companies) will be more diligent to improve the halal product qualities. In addition, the increasing consumption of halal products will affect the national economic through tax income.

The Role of Innovation as a Mediation Effect of Halal Certification and Financial Performance

The calculation using Sobel test generated z-value as much as 2.029. Because the value of z is > 1.96 with significance level 5%, it can be concluded that innovation is able to mediate the influence of halal certification on financial performance. These results indicate that innovation mediates the effect of Halal Certification and financial performance. High innovation can affect foods and beverages company used certification halal to keep the customers' loyalty. Innovation is the key because by enhancing the innovation, the company is able to compete with other contenders in the market. On the other hand if innovation high because of certification halal, the company develop the product. Its can increasing interest of muslim consume, so increase in the product demand can directly promote the company financial performance, one of which is by increasing ROE. The result of this study support some of the result of previous studies and are consistent with the result of reseach by Rajagopal *et al.* (2011), Chan (2011), Salindal (2019), and Cheah, Ho, and Li (2021).

CONCLUSION

The results of this study conclude that: (1) Halal certification positively and significantly influences innovation; (2) Innovation positively and significantly influences financial performance; (3) Halal certification positively and significantly influences financial performance. This study theoretically contributes to the development of financial accounting. Practically, the results of this study are intended to be a reference and consideration for a company to improve its performance and to excel in the global competition. In addition, this study also attempts to find the relations between halal fatwa of the Indonesian Ulema Council to industrial entities and consumers' trust. Moreover, the implication of this study for the management of food companies in Indonesia is the improvement of the company financial performance and innovation through halal certification. The limitation of this study is the lack of data accuracy since the measurements of the independent variables used dummy variables. Further research is expected to extend the data collecting technique using interview with the managers of the companies in order to generate more valid data. Besides, the future researcher can add more dimensions, one of which is sharia compliance in order that the study results can give more impacts on the company financial performance.

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